



# Montgomery's Pulse

A quarterly analysis of Montgomery County's economy from the Department of Economic Development

Vol. I, No. 3

June, 2008

Montgomery County's economy, as of mid-2008, continues on a path of orderly adjustment to factors contributing to the nationwide economic slowdown, including a major correction in the housing market, credit market restrictions, reduced consumer spending, higher debt burdens and sharply rising gasoline prices.

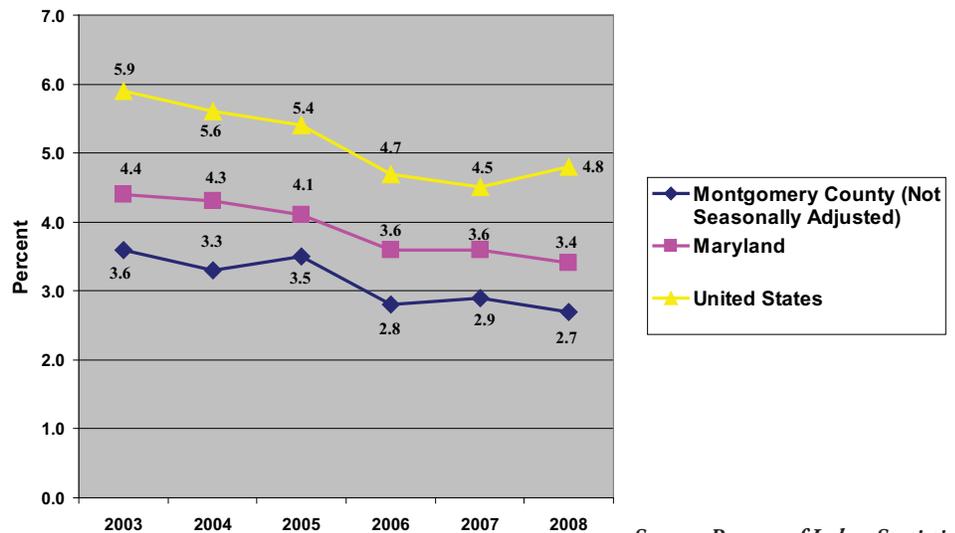
But there are positive signs illustrating the county's economic resiliency. Recent data on commercial real estate activity suggest there are businesses in the county that are bucking the trend and expanding, in particular in up-county markets like Germantown (page 3).

In addition, venture capitalists are still very much targeting the county's advanced technology firms, with more than 90 percent of the \$220 million in VC funding awarded to county firms in 2007 going to technology-related businesses (page 4). These positive signs are reason for cautious optimism that the county's economy is on the path to recovery, with a return to economic growth a distinct possibility by early 2009.

## Employment and Unemployment

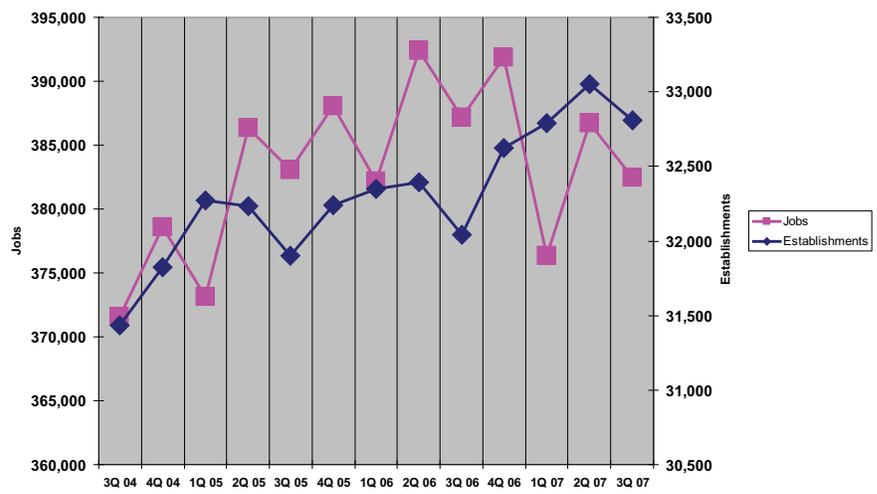
Employment in the county began to decline early in 2007, almost a year ahead of the national downturn, and job losses have continued into early 2008 at a rate of about 1 percent. As firms have reduced hiring, labor force participation in the economy has declined and the county's unemployment rate remains stable at very low levels—at a time when national unemployment rates have turned up somewhat.

Annual Unemployment Rates—February to February Comparison



Source: Bureau of Labor Statistics

Montgomery County Private Jobs and Establishments



Source: MD Dept. of Labor, Licensing and Regulation



# Montgomery County Business & Industry Data

**SMART**Montgomery.com

In the first quarter of 2008 the Department of Economic Development provided significant direct assistance to eight companies that located or expanded in Montgomery County. These companies employ more than 300 individuals and are projected to create in excess of 250 new jobs in the next one to three years.

## Recent New and Expanded Businesses

Company	Industry	Location	SF Occupied	Total Jobs	Notes
Wolpoff & Abramson	Law Firm	Rockville	122,236	500	Expanded by 51,548 s.f. at this location
Europ Assistance	Insurance	Bethesda	33,518	175	Relocated Washington, DC office
TV One	Media	Silver Spring	19,000	75	Expansion of Silver Spring headquarters

## Featured Industry: Financial Services

The Montgomery County Financial Services industry (primarily focused in the Bethesda/Chevy Chase area) is vibrant and vital to the overall health of the county's economy. There are nearly 23,000 people employed by Montgomery County financial services firms. Even more telling, the industry produces the type of highly skilled, highly compensated jobs that are critical to Montgomery County's strong economic base—the average salary of a Montgomery County financial services employee is over \$85,000 per year.

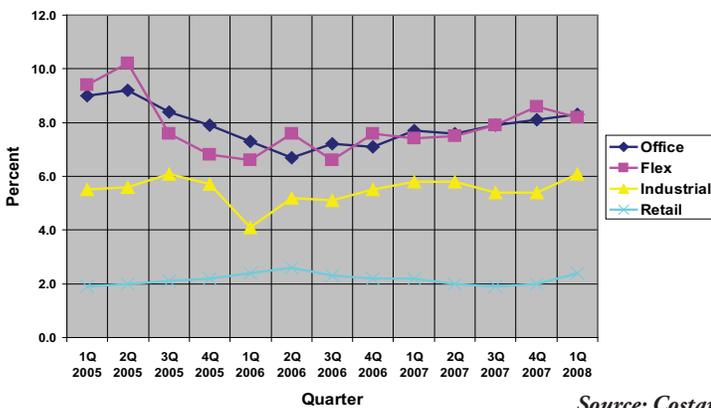
Company	Location	Description	Montgomery County Employees	Notable
American Capital Strategies	Downtown Bethesda	Private equity fund/ alternative asset management	484	Manages \$19 Billion in assets
Calvert Group	Downtown Bethesda	Bond/mutual fund investment	366	Manages more than \$15 billion in assets
CapitalSource*	Chevy Chase	Commercial lending, investment and asset management	320	Valued at \$4.6 Billion
Chevy Chase Bank	Downtown Bethesda	Consumer and commercial banking institution	1,600	Largest bank headquartered in Washington, DC region
Profund Advisors	Downtown Bethesda	Investment fund management	60	Manages the largest number of indexed funds in the nation (59).
New Enterprise Associates	Chevy Chase	Venture Capital	50	Have helped secure private equity for more than 160 companies

\*CapitalSource announced on April 14 that they have entered into a definitive asset purchase agreement with Fremont Investment & Loan, a California industrial bank, assuming all of FIL's retail deposits (approximately \$5.6 billion as of March 31), and to operate its 22 retail banking branches. Additional information is available in the complete press release, which may be found on the company's Web site, [CapitalSource.com](http://CapitalSource.com).

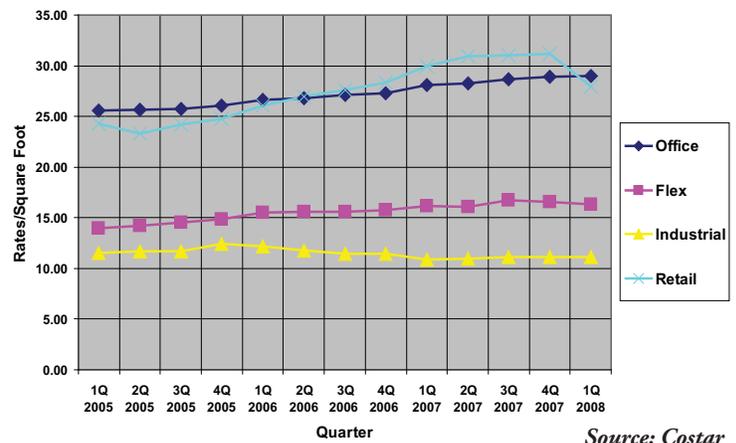
## Non-Residential & Commercial Real Estate

The Montgomery County commercial real estate market has remained steady throughout the current economic downturn. The overall vacancy rate is at a very healthy 6.6 percent. Office vacancy rates have increased just slightly over the last few quarters to 8.5 percent, suggesting that overall leasing activity is strong despite a number of new speculative office buildings in the I-270 Corridor delivering primarily vacant. Office rental rates have also steadily increased to an average of almost \$30 per square foot, suggesting relatively strong demand for space.

Quarterly Montgomery County Commercial Direct Vacancy Rates



Montgomery County Commercial Direct Rental Rates



### Commercial Real Estate Submarket Profile: Germantown

The Germantown commercial real estate market has seen a remarkable recovery in the last few years. Germantown's overall direct vacancy rates have dropped from 16.5 percent in 1Q 2004 to the current rate of 7.9 percent. The recent demand for flex space—which is occupied primarily by biotech, R&D, and light manufacturing firms—has been particularly strong in Germantown over the last five to six years. Direct vacancy rates for flex space peaked in 1Q 2002 at 38.5 percent (more than 60 percent when including sublet space). The current direct vacancy rate for Germantown flex space is down to a healthy 10.4 percent.

Illustrating Germantown's commercial real estate resurgence, several companies have moved into new or expanded space in Germantown within the last few months, including Comtech Telecommunications Corporation, Xceleron and EKA Systems.

EKA Systems, which develops wireless sensor hardware and software applications for the energy utilities industry, was established five years ago. The company has 36 employees with plans to double the number of employees within the next year.

EKA Systems has benefited from Department of Economic Development financial incentive programs—such as the Technology Growth Program during its start-up stage and more recently the Economic Development Fund, which assisted the company in its expansion and build-out efforts.



Prakash Chakravarthi, President of EKA Systems

“Montgomery County is a great place to be for startup technology companies,” said Prakash Chakravarthi, President of EKA Systems. “Even in demanding times, we have been able to attract top talent from other cities to relocate and work for us, in Germantown. EKA Systems is in the business of creating next generation wireless networking technologies for the energy industry and is an exciting place for young and seasoned knowledge workers.”

# Featured Demographics

## Key Business and Economic Statistics – Venture Capital Report

Thirty-two Montgomery County companies received over \$220 million in venture capital financing in 2007, indicating that Montgomery County businesses remain attractive targets for public and private investment despite the overall sluggish economy. These strong investment figures illustrate the ability of Montgomery County's talented business leaders to turn ideas and innovation into viable and successful business models. It is this strong entrepreneurial spirit found throughout Montgomery's County's business community that contributes to the prediction that the county's current economic downturn will be short lived.

Of firms receiving VC funding in 2007, 91 percent are in advanced technology fields. Of these, 63 percent are located in Montgomery County's I-270 Technology Corridor, which extends from North Bethesda to Clarksburg.

The Montgomery County company receiving the most Venture Cap-

Company	Location	Industry	Total 07 Funding
kajeet, Inc.	Bethesda	Telecommunications	\$36.8 Million
Hillcrest Laboratories, Inc.	Rockville	Software	\$24.3 Million
NextPoint Networks, Inc.	Gaithersburg	Networking & Equipment	\$20 Million
Arxan Technologies	Bethesda	IT, Encryption Software	\$13.2 Million
EKA Systems	Gemantown	Telecommunications	\$12.5 Million

ital in 2007 was kajeet, a Bethesda-based cell phone service for kids that couples full-featured phones and kid-appropriate content with intuitive online parental controls in a pay-as-you-go cell phone service available at major retailers nationwide. kajeet received \$36.8 million in VC funding in 2007 from several sources including the Draper Fisher Jurvetson Growth Fund (DFJ Growth Fund), Bessemer Venture Partners, Fidelity Ventures, Gabriel Venture Partners and InterWest Partners. Led by CEO and Founder Daniel Neal, kajeet is a major Montgomery County success story, growing from three



*kajeet CEO Daniel Neal*

to 36 employees since the company was founded in 2003.

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“Montgomery County is my home,” says Neal, kajeet CEO and founder. “It’s a great family-oriented community and a great place to start a cutting-edge company like kajeet. The caliber of the people here is remarkable. Whether we’re looking for a highly skilled software engineer, an insightful financial analyst or a world-class marketer, the people we need are right here. And they love working in downtown Bethesda, a fun place that has plenty of great restaurants and shops. Our headquarters in Bethesda is the perfect springboard for a company devoted to delivering the very best cell phone service made for kids.”

Montgomery County, Maryland, is the **SMART**Business Location. Our companies are leading the way in innovations in bioscience, advanced technology, education, agri-business, healthcare, the arts and more. We offer an array of unique and culturally diverse communities throughout the county.

To learn about the programs and services offered by the Montgomery County Department of Economic Development, visit our Web site at [www.SmartMontgomery.com](http://www.SmartMontgomery.com)



**Montgomery's Pulse**

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*Published by the Montgomery County Department of Economic Development, 111 Rockville Pike, Rockville, Maryland 20850*